

THE GEORGE WASHINGTON UNIVERSITY
Washington, D.C.

MINUTES OF A SPECIAL MEETING OF
THE FACULTY SENATE HELD ON
NOVEMBER 6, 1987, IN LISNER HALL
ROOM 603

The meeting was called to order by Vice President French at 2:14 p.m.

Present: President Elliott, Vice President French, Registrar Gaglione, Parliamentarian Schechter, Berkovich, Birnbaum, Burks, Cibinic, Clark, Cohn, Deering, Garris, Grub, Kirsch, Levy, Liebowitz, Loeser, Lovett, Morgan, Paratore, Pierpont, Reeves, Robbins, Robinson, Schiff, Shotel, Simons, A. Smith, G. Smith, Solomon, Tolchin, and Yezer

Absent: Barron, East, Elgart, Fox, Vontress, and Zubrow

Vice President French outlined the procedures for conducting the discussion of the 1987-88 Budget by officers of the administration. Statements would be presented by President Elliott, Professor Robinson, and designated Senate Representatives of the Schools and College, followed by a general discussion.

STATEMENT BY PRESIDENT ELLIOTT

President Elliott read a statement concerning the status of the 1987-88 operating budget excluding the Medical Center and the efforts which were being made to correct its imbalance. These efforts, he said, included a request that all divisions of the University reduce their current operating budgets by 2%. After careful review of the impact of that reduction, he concluded that that was not a reasonable solution, at least in some areas, and he announced that the following actions would be taken: (1) the administration would not implement the previously announced 2% across-the-board adjustment and would seek to find resources previously projected for other purposes to help reduce the budget deficit; (2) there would be an immediate initiation of controls designed to prevent over-spending in all budgets; and (3) there would be a continued review of all current budgets seeking reductions which will help eliminate the budget deficit for 1987-88, but which would not unduly impact academic programs. (The full Statement by President Elliott is attached and made part of these minutes.)

STATEMENT BY PROFESSOR ROBINSON, CHAIRMAN OF THE EXECUTIVE COMMITTEE

In response to President Elliott's statement, Professor Robinson said that she was gratified to hear that there were

going to be some modifications to this year's reduction in the budget. However, she said that she still wished to address, on behalf of the Executive Committee and the faculty-at-large, the impact of cuts to academic budgets this year, whether they be totally a 2% across-the-board or some modifications. Professor Robinson then read a statement which addressed two central issues: (1) the manner in which the 2% budget cut decision was reached and implemented; and (2) its impact upon the academic units. (The full Statement by Professor Robinson is attached and made a part of these minutes.)

STATEMENTS BY DESIGNATED SENATE REPRESENTATIVES OF THE SCHOOLS AND COLLEGE

(1) Columbian College of Arts and Sciences: Professor Arthur D. Kirsch

Professor Kirsch said he appreciated President Elliott's awareness of the problem of the 2% cut across-the-board by rescinding it for this year. However, he said he would like to read a statement that would explain the problem the 2% cut would have caused and would still cause if not restored to next year's budget. (The full Statement by Professor Kirsch is attached and made a part of these minutes.)

(2) School of Education and Human Development: Professor George W. Smith

Professor Smith said that the remarks by Professor Kirsch have been echoed by SEHD and probably by many other schools of the University. He noted that SEHD had just gone through a very strenuous reorganization during the past year and a half, resulting in the reallocation of present resources in order to become a more efficient and, hopefully, more productive unit. In addition, the school was required to participate in the planning process during the summer. Both of these major activities had taken a great deal of faculty effort and time. Then to find that the school's budget was to be cut by 2%, he said, that was "just too much." The total unallocated funds for SEHD amounted to 8.7% of its total budget, and the 2% reduction meant cutting revenue-producing programs, such as summer school and part-time faculty salaries since this was the only area where it was possible to make that adjustment. Professor Smith said the most devastating impact of the 2% cut, however, was on the morale of the faculty who saw that everything they had planned for was simply being pushed down. Professor Smith said that he was heartened by the comments of President Elliott.

(3) School of Engineering and Applied Science: Professor Charles A. Garris

Professor Garris said that the story for SEAS was very similar to the other schools. The 2% budget cut would have produced roughly a 30% reduction in its operating budget, putting it on a survival basis for the year. Any aspirations towards quality would have "gone out the window." Several questions were raised by SEAS faculty, i.e., "Why were academic programs apparently the only alternative considered, when they should have been considered sacred?" "What was the decision-making process that went into this...who was responsible?" "Was the Vice President for Academic Affairs involved in the decision and what input did he have in the decision-making process?" Professor Garris said that another question which shocked SEAS was its vulnerability to the University's investment situation at large. What seemed to be within the spectrum of University financial activity a very small matter seemed to have such drastic repercussions on academic programs, even though glowing reports about the progress of the University's endowment and investments have been made. If such contingencies in the University's financial planning has such an effect on academic programs, then, perhaps, the faculty should have more involvement in what the investments are. Professor Garris said the faculty were very disturbed by the lack of faculty participation, as well as deans, in the decision-making process, and the consequences of this type of budget cut has had a devastating effect on the morale of both faculty and students.

(4) School of Government and Business Administration:
Professor Susan J. Tolchin

Professor Tolchin said that first of all she wanted to compliment the President on the flexibility with which he had rescued the academic programs for this year. While she could speak about the effect the 2% budget cut would have had on SGBA in terms of travel that was suspended, on the computer leases that were in jeopardy, on the recruitment efforts that were cut back, on the internal publications, on the library books people found they could not order, she would not do so. Instead, she said she would rather talk about the real effect of a budget cut, especially if it continued into the future. She thought, at this point in time, the University had to spend more money, not less, to continue to implement the kinds of goals everyone has been working on; otherwise, the real effect could translate into a diminution of excellence. Citing the efforts of President Elliott who took the University from an \$11 million endowment into the hundreds of millions, who had the vision to create a Commission for the Year 2000, who started a capital fund drive that was progressing very well, and who put the University on a sound financial basis, Professor Tolchin said that the University was on the brink of being a great University. But a great

University was made up of its faculty, its students, and its support staff, and to start cutting into academic programs would have two major costs in the future. The first would be a cost in terms of morale, and the second in terms of academic excellence. She thought that it would be much more expensive in the long run to make these cuts at this point in time. Not only could such cuts have a negative impact on the capital fund drive, at least from the faculty/staff position, but also could have costs in national reputation. In summary, Professor Tolchin said, "Let's find the money somewhere because we can't cut into our momentum ...GW is at a crossroads, and the faculty doesn't want to turn back...the future is now."

(5) Graduate School of Arts and Sciences:
Professor Joseph B. Levy

Professor Levy said that GSAS was affected largely the same way as Columbian College. The Graduate School was very heavily invested in the research operations and the research status of this University, all of which would be damaged very badly. Specifically, items such as funds for outside examiners for doctoral students would have to be cut. Professor Levy said: "This Senate meeting is not just a meeting about the budget. This is a meeting on the kind of institution that George Washington has been and the kind of institution that George Washington may be in the future, and perhaps out of this excitement and these disagreements, some improvements will be made."

(6) School of International Affairs: Professor
John A. Morgan, Jr.

Professor Morgan said that a major part of the impact on SIA would be similar to that of Columbian College. The 2% cut would mean that the already pathetically low amount of funds available for research support within SIA would be eliminated. There would be no money available for professional travel or funds for speakers and films. The amount of money not tied up in faculty and staff salaries was probably smaller than in Columbian College and much of that money was "soft" money which was very difficult to calculate in terms of the future. Professor Morgan cited an example of the impact of having no travel funds. He said that one of his faculty colleagues was invited, along with 100 experts throughout the world, to a conference called by a former President of the United States to consider possible solutions to the Arab/Israeli conflict. Participation by the GW professor would not occur unless he paid his own way, but he understood that there were four invited representatives from one of GW's neighbor institutions. From the standpoint of the visibility of the University, Professor Morgan thought that this was a very serious problem. More significantly, the absence of funds for professional travel was of great importance, not only

to junior faculty and their professional development, but to the prestige of the institution as well. Professor Morgan noted that this kind of reduction, at least in SIA, clearly impacted very dramatically on the rather confident and ambitious statements with regard to the emphasis on international affairs that was found in the Commission for the Year 2000 Report.

(7) National Law Center: Professor Barkley Clark

Professor Clark said that the consequences of the budget reduction would be substantial for the National Law Center as well because the 2% cut would translate into a much higher percentage, after subtracting salaries and other non-discretionary spending. In order not to reduce instructional personnel or academic programs, Professor Clark said that Dean Barron indicated he would have to cut back on the administrative overhead in the Dean's office. However, the main concern of Dean Barron was that this budget cut would be built into the base in the future in terms of operating expenditures and, therefore, would have a real impact long-term that would be there on a continuing basis. Professor Clark said that the Law Center was "a real rising star in the constellation of law schools around the country," and one of the reasons for this was that the school now has been able to provide its faculty with support in the way of word processors, additional travel to conferences, and research grants for younger faculty. He said that if a 2% cut were to be made permanent in the future, there was no question but that it would have a tremendous impact on discretionary funds which would, in turn, hurt the reputation of the Law Center. Professor Clark said that he was gratified to hear that the 2% cut would not take place, but he re-emphasized his concern about problems with budget cuts in operating budgets in the future.

(8) Medical Center: Associate Professor Howard Pierpont

Professor Pierpont said he did not have a statement to make because the Medical Center was on a different budgeting system.

GENERAL DISCUSSION

Professor Grub said that, by rescinding the mandatory budget cuts, in business administration terms, this was no longer budget-cutting by crisis, but budget cutting by exception. He said that he agreed with the views of some of his colleagues that George Washington was at a crucial point in its history when, for the first time, it could move from being a "good" University to being a "great" one. He said he was glad to hear that the budget cuts would not be enforced on a broad, across-the-board basis, however, he thought cuts would still be made and they would still have a much greater impact on academic units than on

non-academic units. In that regard, Professor Grub then read a statement. (The full Statement by Professor Grub is attached and made a part of these minutes; also attached is an article published in the Legal Times, November 2, 1987.)

President Elliott said that the one objective he has had in mind since he has been here was to strengthen the academic work of this institution. The Vice President for Academic Affairs was selected to do the same thing, and the President said that Dr. French was doing a very fine job. The President thought that any personal criticism of Dr. French or the role he may or may not have played in the decision-making over the past several months was out of order. During the past year, Dr. Elliott said he was probably more responsible for the imbalance in the budget than anyone else because he pressured Vice President Diehl "to get that radio and television studio ready for the September opening, get that modernization completed in the Gelman Library, and get those chemistry and physics laboratories ready for the students and faculty by the fall term," and, therefore, Vice President Diehl spent money faster than he would have otherwise. The President invited the Chairman of the Executive Committee to designate a group of faculty members representative of the body of total faculty to meet with him to go over every detail of the University budget from the creation of the Planning Committee to the investment in 2000 Pennsylvania Avenue because there has been so much misinformation about so many parts of this institution. He noted that the new Comptroller, Mr. Olmo, with the help of appropriate officers, would initiate controls so that budgets would not be overspent. President Elliott said that he welcomed opportunities to talk about the building of the University in the remaining few months that he would be here with the youngest members of the faculty, the newest, or the most senior.

Professor Cibinic said that he had hoped that this meeting would not take on a confrontational bent. He recalled that in 1965 the faculty of this institution voted not to welcome the then President-designate, Dr. Elliott. He said Dr. Elliott came anyway and he was glad and thankful that he did, and he hoped that President Elliott did not have to leave on that same note. However, he did wish to remind the President that the issue which galvanized the faculty in 1965 was one of non-participation, and it seemed to him that this was the primary complaint expressed today. Professor Cibinic said that he thought the administration, the Board of Trustees, and the faculty have to work together to find some greater degree of participation.

Professor Yezer said that, as a member of the Committee on Coordinated Planning, he welcomed President Elliott's announcement that the CCP would not be allocating funds for the next year. He said that the faculty members of the CCP would appreciate an increase of their influence on the Committee and that they did not consider the 2% budget cut across-the-board to be particularly good evidence of skillful management. On the

other hand, he said, he would call on the faculty to reject the easy, cynical view that the planning process was one in which a glossy document was prepared so that the budget officer would give them more money. Professor Yezer then distributed a memorandum with tables pertaining to "Perspectives on the GWU Budget and Financial Plan." He said the tables were designed to give a brief account of major budget trends in a fashion which isolated expenditures for and revenues from instruction, research, and auxiliary enterprises. He noted that the faculty thought the instructional programs were running a surplus based on Line 13, while the administration was worried about deficits based on Line 29, reflected in the tables. (The memorandum is attached and made a part of these minutes.)

Professor Morgan said that what he thought was bothering a great number of faculty was the manner in which the decision was initially reached to implement a 2% budget cut. He understood that the President was away when that decision was announced. Today, the President stated that, after further review, there would be some adjustment because some units simply could not meet the 2% reduction. Professor Morgan said that that raised a very important question. Why were appropriate people not consulted at a propitious time so that the relevant factors and real consequences of this particular approach could have been properly assessed initially? This did not mean simply consultation with the faculty, but with the deans who are responsible for academic programs. Why was the impact on programs not taken into account initially? Where was the Vice President for Academic Affairs in this deliberative process? Professor Morgan emphasized that he was not criticizing Dr. French, but trying to address what the faculty considered to be a very serious deliberative problem. He said he was very pleased that the problem was now being properly considered, but he hoped that in the future, when such problems arise that the appropriate people will be consulted initially and not subsequently.

Dean Lovett noted that Columbian College faculty leaders and she had spent a considerable amount of time during the last three weeks dealing with the consequences of what seemed a mandate of reductions and anticipating the consequences for next year. Although she was greatly reassured by President Elliott's statement that there would be a reconsideration of the plan, she was concerned about his statement that he would look to the restoration of instructional monies that were needed for the Spring of 1988. In Columbian College, implementation of the 2% budget cut meant a 100% reduction in other categories, while leaving the instructional programs almost untouched. Dean Lovett said she hoped his statement did not mean that those who acted responsibly, vis-à-vis instructional expenses, would be denied restoration of funds for faculty support. President Elliott responded that those funds would be restored.

Professor Levy said that there were two main points he wished to make. First, he thought the faculty's perception was that the academic budgets were being penalized for errors made elsewhere in the University. Secondly, it seemed to him that

academic budgets should be insulated from the "ups and downs" of the real estate investments. He invited the President's response to these points.

President Elliott responded by saying that he did not believe the entire University budget could be insulated from the vicissitudes of everything from the stock market to the over-building of office space in Washington. The loss in 2000 Pennsylvania Avenue was a disappointment to everyone. Offsetting that disappointment, however, was the fact that the University was very lucky in that its investments were not hurt by the recent "Blue Monday" in the stock market. What the University needed was a five-year financial plan to go along with the five-year academic plan which would do much for multi-year projections of income and outgo and give the institution a better handle on the "ups and downs." Dr. Elliott said that, unlike other university presidents, he has never retained a dollar of discretionary money in his office to respond to particular crises, because he preferred to have every dollar where it would buy the most education. He said he had no quarrel with the most important academic decisions being made at the departmental level where it impacted first on the students. But he was just as fearful as the faculty in centralizing the kinds of decisions that were referred to here today -- yet if this institution was to move forward, it had to "bite the bullet" on some of these tough decisions.

Professor Grub said he wished to state that he intended in no way in his remarks to discredit Vice President French's character, and he apologized if there were any such inference. His criticism was of the process with reference to the chain of command which was of concern to himself and the faculty-at-large, and that he so stated that in his remarks.

Vice President French said he wished to comment upon this matter. The discovery of the discrepancy between expected revenue and expected expenditures developed while the President was away. During his absence, the Provost was the chief administrative officer and he was responsible for dealing with this development. He did so in consultation with the appropriate Board of Trustees Committee. When the remedy was first proposed, the question of its impact on academic programs was raised, and the Provost assured the Board that if it were discovered that this would be damaging to academic programs, then that remedy would not be pursued. Dr. French said that until the President returned and until the consultation with the deans was concluded, he thought it would be irresponsible for him to have spoken unilaterally as the chief academic officer.

Dean Liebowitz said he wished to make a point that might help avert this kind of problem. In the past, the deans, as a group, offered to assist in the planning for the future of this University. When evaluation and coordination of academic

programs were being discussed, he thought the collective expertise of the chief academic officer, the faculty, and the deans should be involved in this overall evaluation. Another matter of concern, Dean Liebowitz said, was that of overruns. Some comments had been made about putting the budget in order by looking at overspending. He said he would be very concerned if those overruns were just wiped out because in SEAS, for example, those overruns have been caused by under-budgeting. Sometimes the school was paying for things that it should not be paying for.

With reference to the planning process, Dr. Elliott said that some seven or eight years ago, the then-Chairman of the Faculty Senate and a highly respected SGBA professor both suggested to him that a planning office be established for the University. Because he did not think the University had the resources to realistically respond to the wishes and hopes of the schools and departments, he delayed the initiation of such a plan for all those years. When the planning process was finally initiated, he said, it was obvious what has transpired since then. To put it negatively, he said, one of the difficulties is that the Council of Deans wants to control the planning and the Faculty Senate wants to control the planning. Somehow the Planning Commission, the Committee on Coordinated Planning, the Planning Officer, the Faculty Senate and the Council of Deans will have to resolve this problem because, Dr. Elliott said, it was absolutely vital to the ongoing development of this institution to sharpen its focus, and that could happen only through planning.

Professor Robinson said she thought that this meeting had been an extremely useful process. The questions and comments on the part of faculty came not from negative feelings but from concern, loyalty and commitment. She expressed her appreciation to President Elliott for his leadership and for all that he had accomplished for the University. She welcomed the President's invitation to appoint faculty to meet with him because that was precisely what was needed in order to solve problems together before they reached a crisis point. Professor Robinson then thanked the President for his remarks, noting, however, that the faculty would have many questions about the alternatives that would be used as a solution to the current budget problems, the 1988-89 Budget and the planning process.

ADJOURNMENT

Upon motion being made and seconded, the meeting was adjourned by Vice President French at 4:12 p.m.



J. Matthew Gaglione
Secretary

FACULTY SENATE

SPECIAL MEETING - NOVEMBER 6, 1987

STATEMENT BY PRESIDENT ELLIOTT

We are concerned today primarily with the status of the 1987-88 operating budget excluding the Medical Center and the efforts which are being made to correct its imbalance. These include a request that all divisions of the University reduce their current operating budget by 2%. After careful review of the impact of this reduction I have concluded that it is not a reasonable solution, at least in some areas. I shall make every effort to be brief, but I think we all realize that we are dealing with a set of complex issues.

All of us are aware of the reasons cited for the current imbalance; however, because of misperceptions or misunderstandings there are two facts which need emphasis. There has not been a decrease in gifts to the University. Indeed, our fund raising campaign is successful, gift revenue has increased substantially and is exceeding goals. Income from investment property in 1987-88 for current operations is now estimated at \$2,700,000 or \$500,000 less than in 1986-87; however, we had anticipated it to be \$1,000,000 more. The tenant's bankruptcy was outside the control of anyone here at the University.

For several years one budget policy may have been detrimental to our financial position. In the development of each annual budget revenues have been estimated generously and all of them have been allocated for expenditure. No funds were set aside for contingencies and we operated with no margin for error. Another factor to consider is that little

centralized control was exercised over budgets or programs. That is to say--deans and others had a great deal of freedom with respect to:

Program Development

Faculty Development

Faculty Replacement

Tenure Decisions

Teaching Loads

Budget Administration

Obviously we cannot continue on this path. Our first priority must be to stabilize the current budget and insure a balanced budget for 1988-89.

It is unfortunate we have encountered this budgetary problem just as we are initiating a long range planning cycle. While we tried to communicate a context of limited resources for the next five years, I recognize that asking all divisions to think about program development generated expectations all of which can be met only after tough choices have been made. This, I am sure, is the source of much of the current frustration. We all share in it. The timetable for the planning process called for the Committee on Coordinated Planning to make some recommendations for resource allocation in 1988-89. Since our first priority is to stabilize the budget, this step in the process will not take place. That is, the CCP will not make recommendations for resource allocation in this first year of the planning process.

On the other hand the situation we are in further reinforces the need for systematic planning. Choices concerning the allocation of scarce resources will be more difficult to make and a systematic review of plans is required to help us make the best decisions possible. The Vice Presidents have submitted plans in accordance with the Call for Planning,

and the Deans are expected to submit five year plans as well. The development of this first set of plans, I know, has been time consuming; however, it has provided an opportunity to examine and define needs, priorities and aspirations of your respective units. I believe my successor will find your plans to be of great value. Strengths and weaknesses throughout the University will be clarified as will the requirements to correct the latter.

I will ask the CCP to make recommendations concerning which plans should have priority in the next five year period. In addition, it is clear that we need a realistic long range financial plan. The Budget Committee will direct the development of this plan which will point the way for converting program plans into realities.

Another source of frustration is a perception that the planning process will lead to centralization of program and other academic decisions. There is a compelling need for some centralization particularly in areas such as class scheduling, enrollment planning and management, space utilization and establishing program priorities. There is nothing in the process which circumvents the appropriate role of the deans as academic managers or the role of the faculty in the governance of the institution.

By way of illustration, I'll cite the need for centralized class scheduling. A few years ago when Dr. Bright and I began to review the glaring shortage of classrooms, we found that academic offerings in many parts of the University were moving more and more to a 3-day week, putting an impossible demand on teaching space for Tuesdays, Wednesdays and Thursdays. With costs of construction escalating, plus the expense of maintenance and operation, it was and remains poor policy to use the

physical plant inefficiently. It hasn't been easy, however, to turn such practice around.

I must comment now on one item which was mentioned earlier.

The success of the Campaign for George Washington is critical to the continued growth and strengthening of the University. I have had reports that some feel that this fundraising activity, somehow, is responsible for the 1986-87 deficit--nothing could be further from the truth--and that there is a growing lack of interest in supporting the efforts of the Development Office. If this should become a prevailing attitude, it will take a long time for the University to recover from the consequences, let alone continue to make substantive progress.

Let me return now to our immediate problem.

After further review we now know that commitments have been made in this year's budget which cannot be rescinded at this date. The budgets of some units simply do not have sufficient flexibility to enable them to meet the requested 2% adjustment.

As a result, my colleagues in the central administration and I will recommend that other resources be used to help stabilize the budget. In particular, we are requesting permission to suspend temporarily the policy of transferring unrestricted gifts to the endowment fund. Also some important plans for University development--academic and non-academic--may have to be deferred for a year or two.

I must stress, however, that the budget is out of balance. That has to be corrected. The Vice President for Academic Affairs and the Provost will continue to meet with each dean to review in detail all commitments for this year and to project next year's requirements. I can assure you now that out of those conferences funds necessary to cover part-time

faculty salaries in the 1988 spring semester will be restored.

Administrative budgets will be examined in a similar fashion with the aim of reducing present-year obligations insofar as possible.

To recapitulate:

- 1.) We will not implement the previously announced 2% across the board adjustment and will seek to find resources previously projected for other purposes to help reduce the budget deficit.
- 2.) We will initiate immediately controls designed to prevent over-spending in all budgets.
- 3.) We will continue to review all current budgets seeking reductions which will help eliminate the budget deficit for 1987-88, but which do not unduly impact academic programs.

None of this means a return to the status quo. Some budget adjustments have to be made and, as indicated, the Vice President for Academic Affairs and the Provost will accomplish this in cooperation with the deans and administrative officers.

The University remains fundamentally in a strong position. However, the imbalance between expenditures and revenues is real and must be brought under control if we are not to jeopardize the academic aspirations which we all share. We have met problems before and working together we have resolved them; I am confident we can do the same now.

Remarks of Lilien F. Robinson at the Special Meeting of the Faculty Senate, November 6, 1987.

While gratified that the projected budget cut will now be modified, I would like to make a few remarks on behalf of the Executive Committee which I hope will also be reflective of the concern of our colleagues throughout the University regarding the Administration's decision to impose a 2% budget cut for the current academic year.

I would like to address two central issues: the manner in which this decision was reached and implemented and its impact upon the academic units.

First, in reference to procedure, the action of the Administration is consistent with a pattern evidenced since the 1985 Report of the Commission for the Year 2000. The Report, which many members of the faculty felt needed considerable rethinking and reformation, was sent to the Board of Trustees before the Faculty Senate had an opportunity to fully review the document and make alternative suggestions. Thus the blueprint for the future did not receive the type of full consideration warranted. The pattern of non-consultation, or consultation after the fact, was repeated in the formation of the centralized academic planning process, the Committee on Coordinated Planning, and the appointment of the Planning Officer. In 1986, we witnessed the same approach with regard to the reorganization of the School of Public and International Affairs. Again, the decision was made and the faculty was not consulted on a clearly academic matter affecting several schools. In the summer of 1987 the initiation of a five-year planning process and instructions for its almost immediate implementation were presented to the faculty. The procedure, then has been to formulate decisions on academic matters without full faculty consultation. Typically, these decisions have been announced in the form of directives for implementation, although the Faculty Code provides otherwise.

It may be argued that there should be no expectation of consultation in the case of budget planning since traditionally the faculty has played no role in this process. We would maintain, however, that when budgetary decisions are made which clearly affect academic programs, the faculty should be advised of existing problems and its response and advice sought. The seeking of advice from the faculty would seem natural in a University which employs respected specialists in economics, planning, budgeting and accounting and whose professional expertise is so frequently solicited outside the University.

We are a dedicated and concerned faculty. We have focused our energies and intellectual resources on the building of an institution which has the potential of becoming an outstanding University. Our commitment is a sincere one. Our expectations of the fulfillment of at least the consultative role designated by the Faculty Code is not extreme. Our information regarding matters of great magnitude ought not to be limited to articles in the student newspaper.

However, there is more at issue than faculty consultation. Even those who might reject the necessity for direct faculty input would agree that the academic deans, by the very nature of their positions, must be involved in the decision-making process. Increasingly, they too have been simply informed of decisions and policies after the fact. In the case of the current budget, there was no opportunity for the academic deans to respond and suggest alternative sources of reduction. We urge that in an academic institution the decision-making process ought not to be modeled on the military services. We, as faculty, have believed that we were part of a community of kindred spirits oriented to the achievement of identifiable mutual goals. It is not naive to assume that the outcome would have been different had the officers of the Administration alerted the Deans to the deficit, solicited information on the potential impact and called for suggestions and alternative solutions, including other savings or means of increasing University revenues. The deans, in turn, would have turned to the departments for the sort of information that only these units could supply. That, it would seem to us, is the procedural scenario expected of an academic institution.

Those who may have concluded that the procedures as outlined are still atypical and that surely now that there has been some indication of the clearly negative ramifications of this last decision should be alerted to the fact that the budgets for 1988-1989 were distributed this week. These budgets reflect a 2% reduction of the base. The concerns which have been voiced during the last two weeks by deans, faculty, and students are not reflected. No additional consultation proceeded the distribution of the 1988-1989 budgets.

Let me turn to the second matter: the impact of a 2% reduction in the current budget as it is perceived by the faculty.

First, it must be emphasized that to view this as a 2% reduction is erroneous. Since salaries were excluded, the reduction was in the operating budgets and it far exceeded the quoted 2%. In some cases, it would have constituted a

reduction in excess of 20%. Others will speak with greater specificity to this point.

The impact of such a reduction would have been both immediate and long-term. There is, however, a common denominator: potentially irreparable damage to academic programs, faculty development, faculty productivity and the general morale. The immediate actions which would have been necessitated by the reduction will be addressed by representatives of the schools. However, in general these include: limitation and in some cases curtailment of faculty recruitment, reduction of the number of part-time instructors and thus course offerings in a University heavily dependent on cost effective part-time teaching; curtailments in the purchase of equipment and materials necessary to effective teaching of students paying higher and higher tuition; elimination of support of faculty participation in professional meetings; and the elimination of support of symposia and public lectures.

The implementation of the reduction in the 1988-1989 budget would signal the continuation of the expenditure-cutting devices cited. These promise to be even more dramatic and far-reaching. In order to meet the 2% required reduction in 1988-1989, the schools will be forced to explore other devices. For example, currently, the elimination of reduced teaching loads for purposes of research has been only a matter of discussion. A cutback in 1988-1989 would necessitate a change in policy regarding course reduction.

The impact of such budgetary decisions is concretely evident. But there are more subtle yet inherently even more damaging reverberations. For a faculty which has been encouraged to believe that the University was moving deliberately in the direction of achieving academic excellence and that resources and incentives would be available to insure faculty productivity and effective teaching, the potential of regression is demoralizing.

Remarks by Professor Arthur D. Kirsch at the Special Meeting
of the Faculty Senate, November 6, 1987.

As I mentioned to you last week, I feel that the years from 1965 to today should be known as the Elliott-Kirsch years -- we both started here at the same time. And, if it were not for academic tenure, after these remarks I am about to make, we might be leaving together!

When the faculty of Columbian College first heard that we would have two percent reductions for the Spring Semester, many of us did not fully realize what that would mean to the college, the departments, and to individual faculty members. When we did some rough calculations, it became apparent that this seemingly small reduction will cause major problems.

To show this, I would like to use an example of the Columbian College budget, rounded slightly so that the example can be more easily followed.

1) Our overall budget is just under \$20 million. Thus, a reduction of 2% equals \$400,000.

2) But, as was confirmed to me by the Budget Office, total College compensation, that is, salaries, wages and fringe benefits, is about 89%. When we add obligations (such as maintenance contracts on equipment), it would be reasonable to round this to about 90% obligated.

3) Thus, the unobligated portion of the Columbian College budget is 10% of \$20 million, or two million dollars. And, the reduction required of \$400,000 is twenty percent of all funds over which real control can be exerted.

4) Further, since the deficit did not become apparent until the semester was underway (about October 12), much of these discretionary funds have been actually spent, or completely obligated. Thus, we see that 60% of these funds had been expended, leaving \$800,000 unexpended. Of this \$800,000, then, the College is being asked to forego 50% of its residual funds. (Please take my word that my rounding is, if anything, producing conservative estimates of the magnitude of the problem faced by the College.)

What does this 50% reduction mean to Columbian College for the Spring Semester?

1) No more travel to professional meetings - this at the time that the GWU Committee on Coordinated Planning is exhorting the faculty to aspire to academic excellence! Academics must be given a chance to improve their

professional visibility, even to just stay at the level we now have. How much more, not less, do we need such visibility if we are to advance the University's image?

2) Equipment purchases must be postponed or cancelled. To some departments, mine especially, equipment is an integral part of the curriculum and program. We have faculty who have been spending time developing new course materials based on the assumption that new equipment will be available. I am sure other department are in the same position. Again, the plans to help improve the University in Sciences and Engineering assume continual upgrading of equipment, just to keep current.

3) Staff development and additional staff support directly related to academic endeavors should be increasingly funded, not down-funded. I do not see how any reductions from the already minimal resources available can be justified.

4) And finally, our Dean has said she must reduce her additional contributions that she has routinely made to help departments meet their needs for additional part-time faculty. These departmental needs have never been fully shown in departmental budgets. Year after year, when I was Chairman of my department, I would point out that we could not meet our obligations to our students without more part-time faculty that was shown in our budget. Each year, the Deans, first Dean Linton, then Dean Lovett, "found" extra resources from their very limited reserves. If this shortage is not restored, actual courses that need to be taught will have to be cancelled - an unconscionable state of affairs!

And, if this were not enough, we have had word that these reductions will carry over into the base of next year's budget. Not just one semester, but three semesters of reduced ability to provide needed programs, faculty, staff, and equipment. This must not be permitted to happen.

Any reduction in part-time faculty would be particularly ironic in my department, Mr. President, for, as you know, we just celebrated our 50th anniversary as the oldest free-standing Department of Statistics in a liberal arts college in the United States. And, as I said to the 180 some-odd guests at the luncheon, we have existed and grown through the efforts of a superior cadre of part-time faculty, many of whom have been with the Department for many years. Indeed, some have been affiliated with GWU as long as we have.

An administrative policy that forces a department to abrogate its commitments to its full and part-time staff and students is, at best, wrong-headed; at worst, callous.

Mr. President, you have greatly improved the University in the years you have been here. Our physical plant has improved by many orders of magnitude. Faculty salaries have increased to the point where we are now at almost a competitive level. Faculty teaching loads have been reduced so that we can realistically expect a first-rate level of research output. Student Aid has increased dramatically, as has our overall endowment. Please do not let this budget shortfall wreak such havoc on our academic programs.

REMARKS TO THE FACULTY SENATE ON BUDGET CUTS

November 6, 1987

Phillip D. Grub

Aryamehr Professor of
Multinational Management

George Washington University is at a crucial point in its history. For the first time, it is at a transition point where it could move from being a good university to a great one. The past fifteen years have marked a dramatic increase in the growth and the development of programs, some of which are ranked among the top five nation-wide, if not at the top. As each program develops further, it enhances not only the recognition of the school within which it is housed, but the reputation of the university as a whole.

I am pleased to hear that the mandatory 2% budget cuts will not be enforced, as the net effect would have been, in reality, a cut ranging from 20 to 50% or more on existing school/departmental operating funds. Also, since the academic units carry a far heavier base in terms of faculty and staff, the percentage cuts taken from the operating funds places a much greater impact on them than it will on the administrative (non-academic) units.

The caveat is that these cuts were to have no impact on academic quality. To believe such nonsense is foolish and short-sighted. In fact, probably each school within the university is under-budgeted at the present time. Furthermore, the budgets of the last several years have not been realistic, because school after school, department after department, unit after unit, has overspent its budget. Where has been the reality?

Thus beginning with the fact that most schools are underbudgeted, thereby already inhibiting quality necessary to achieve the status of a great university, these budget cuts would indeed diminish what has been achieved and is currently underway. In many cases, the university should be making increases in selected programs funding rather than making cuts in these already limited budgets.

I am not saying that there is no fat in all of the budgets per se; no doubt there is. In fact, there are probably academic programs that are over-budgeted in terms of their productivity and contributions to the university as a whole, some programs that should not exist, and possibly some administrative functions that should be cut as well.

But rather than take appropriate administrative action to streamline the university, which would take some effort and place responsibility where it should be vested at the top level, the easy way out had been taken to reduce everyone, good and bad, contributors and non-contributors, performers and non-performers, with an across-the-board 2% cut. Furthermore, the blame and responsibility then falls on the Deans and Department Chairs, who are faced with making the tough decisions. This is not planning, but the abdication of planning. What is needed is strategic planning for program development and budget control.

This is not to infer that the Deans and Department Chairs should not be involved; they most definitely should. But rather than making across-the-board cuts, these individuals should be charged with the responsibility of proving the viability of their units, and the contribution which they are making to the present and future of this university. Administrative units should undergo the same scrutiny. However, they should be involved in a consulting process for planning rather than responding to an inappropriate command.

Thus it is not necessarily the budget cuts which are the key problem, but it is the approach which has been taken. I am dismayed that the academic officer responsible for seeing to the needs of the faculty of this university, the Academic Vice President, has not taken a strong position on behalf of the faculty and provided leadership in this process. It has caused the Senate to become active, that is, to seek necessary guidance, consultation, and alternative recommendations that could better resolve the issue at hand. In short, he has not developed a sense of the feelings of this faculty by his actions on this and other matters and acted in a responsive manner.

Without faculty input, the entire approach to the budget process is wrong. There is a demonstrated lack of procedures of how to go about coping with a crisis. There is also an apparent lack of understanding of the impact which budget cuts of this nature, if enacted, will have on the university in the current academic year, let alone the future impact of our reputation on students, alumni, and faculty.

We are focusing on budget cuts solely, and not at all on revenue enhancing. To the best of our knowledge, until this week no alternatives have been considered; at least no alternatives have been presented to the faculty to help understand the situation better. Questions arise as to who was involved in the decision process, how was the decision reached, and to what degree was the Board informed of both the action taken and the impact that such actions would have.

President Elliott will well recall that he came to this institution at a time when faculty morale was at an all time low. The reputation of this institution was that of being mediocre at best. Students and graduates had to explain the rationale of why they chose GW rather than some other institution. Recruiting was difficult, and the administration rejoiced when they could find a warm body that also had another job that would provide the individual with a decent salary so that they could afford the luxury of teaching at GWU. We have come a long way since then. Will we regress now?

I am most confident that President Elliott does not wish to end his tenure leaving a demoralized faculty, a university that may be diminished in stature, students who are turned off, and a negative press. But that is indeed happening. Let me give you an example of the Department in which I teach., which may well lose its accreditation if the cuts, as proposed, are enforced.

It was only a few years ago that people were talking about the vitality and growth of the business unit at George Washington University. In the latest rankings, we moved up to the 22nd place nationally, and it is the goal of our faculty that we be in the top 10. Three years ago, surveys were undertaken of one of our programs and it ranked number 1 nationwide, closely followed by New York University, with Harvard in 3rd place. In the last year, that program slipped to 3rd place. The reason is insufficient budget, inadequate emphasis on research, and an inability to retain and attract new top-ranked faculty because of low salaries and lack of research support.

It is not with pride that my colleagues and I in the business unit are in the lowest 25% salary bracket of our contemporaries throughout the United States. It is not with pride that I say to you today that we are unable to recruit high quality faculty at any level unless there is some extenuating circumstance, such as a spouse being employed, that will attract them to this campus. It is not with pride that I recall one of our most outstanding junior faculty members leaving last year because of a \$2000 salary differential below his minimum expectations and far below his alternatives.

Furthermore, it is not with pride that I see my colleagues beginning to scurry for the first time in mass numbers (and the ones who are doing so are among our best professors) to look for alternative sources of employment. We have had promises too long. Morale is falling, and falling fast.

And the morale of the School of Government and Business Administration got another jolt only two weeks ago today, when Norma Maine Loeser submitted her resignation as Dean. And while her resignation does not say so, it was this budget cut along with other problems that "broke the camel's back."

I do not address the Senate as one who comes from a program or a department or a school that has impacted on the deficit that this university faces or has faced. In fact, we are and always have been the largest academic profit center in the university. But unfortunately, we are all too often regarded as a "cash cow." Now, the entire academic unit of this university is being so regarded. Data developed by Professor Yezer show that, for the last 3 years, the academic side of operations has produced a surplus.

Depending on how these budget cuts are made, one may ask, can SGBA afford to have students from other divisions of the university in our classes when we will not be able to meet the needs of our own? Will other colleges and divisions be able to service SGBA students when their priorities will have to go to their own degree majors?

In closing, I would like to focus attention on some alternatives, and I am pleased to learn that alternatives are being considered. The stories on President Elliott's tenure note that he took a risk in building the Gelman Library, because he had faith in what it would do for this university. I would hope that he would have similar faith in the faculty at this time so that a risk could be taken and some alternative means could be found for a resolution of the budget deficit. The \$4.0 million in budget cuts will cost more in lack of momentum, adverse publicity and morale than it is apparent that the administration of this university has recognized.

For example, the Capital Campaign contained many unrestricted gifts. What about using some of that money to correct this deficit?

If the rents we are charging are too high, how about lowering them and getting the rental buildings filled?

Could not economies be effected by a review of the overall administration as well as program areas to ascertain if there could not be cuts made in unproductive areas so as not to diminish the effectiveness of the productive ones?

If our real estate position is as rosy as it has been stated in various public relations statements to the press and other media, could we not indeed borrow to finance the current crisis?

Are there not donors that could "come to the aid of the university in an unusual time" to assist in a time of need? "Friends of the University" have demonstrated their confidence in our future as evidenced by the gratifying progress of the Capital Fund Campaign. It would be ironic and very sad if this current "financial crisis" were to be interpreted by potential donors as a lack of confidence in ourselves and thereby jeopardize the success of the campaign and future development efforts.

And finally, will we indeed be able to justify our position as a tax-free institution if we are causing academic programs to bear the cost of our real estate programs at a time when we continue reinvesting in new real estate ventures?

Consequently, I recommend that the Board of Directors become involved in the issue and take the following action:

1. From the uncommitted endowment, authorize \$6-8 million to be placed in a contingency fund for future shortfalls;
2. take an additional \$4-6 million and place it into an academic contingency fund to (a) replenish the current stripped budgets and (b) to increase faculty salaries on a merit basis to the "A" level average effective with the 1988-89 academic year; and
3. direct the administration to pursue the goals for academic excellence and reduced teaching loads for productive research-oriented faculty so as to enhance our visibility as a research as well as teaching institution and attain the status of a truly great international university.

Mr. President, building a great university is the goal you have so often stated and worked toward--and that is the goal of this faculty. The future begins now--and we will work with you to attain this goal.

IRR PROFESSIONALS

For Defunct Firm, Lease Was One More Hassle

When Los Angeles' 100-lawyer **Kadison, Pfaelzer, Woodward, Quinn & Rossi** broke up in July, the firm found itself stuck with a 15-year lease for its office space in the District.

As a result, the defunct firm, only in its third year on a lease for 20,000 square feet at 2000 Pennsylvania Ave., N.W., was forced to buy its way out of the remaining 13-year obligation.

Kadison, Pfaelzer's predicament provides a lesson to other firms about the importance of negotiating real-estate leases to address unlikely events, like breakups.

Lawyers for Kadison, Pfaelzer and for George Washington University, which

owns the building in the retail-office development known as Red Lion Row, would not disclose how much Kadison, Pfaelzer finally agreed to pay to free itself from the lease. The lawyers would only say that the amount was for several months' rent.

Kadison, Pfaelzer paid about \$30 per square foot annually, according to one ex-Kadison, Pfaelzer partner. This partner says that in the end, Kadison, Pfaelzer paid GWU an amount equal to from four to five months' rent, or approximately \$200,000 to \$300,000.

When Kadison, Pfaelzer negotiated its lease, the firm never anticipated that the partnership would dissolve three years later. Consequently, Kadison, Pfaelzer at the outset failed to negotiate a contingency clause to address the need for a quick exit.

Yet landlord GWU was prepared. A clause in the 33-page lease states that if the tenant becomes bankrupt or enters into a receivership, the tenant will be held in default. Upon dissolution, Kadison, Pfaelzer voluntarily entered into a receivership.

"Landlords have to carry the bag" if their tenants don't pay, says **Barry Hberman**, an associate at D.C.'s Gross-

Jerg, Yochelson, Fox & Beyda and counsel to the university.

The parties, however, were able to reach a settlement. Kadison, Pfaelzer agreed to a lump-sum amount, and in return, the university agreed not to pursue a claim for breach of lease in Superior Court. The university also agreed to let Kadison, Pfaelzer hold a liquidation auction in the office, even though the firm was no longer a tenant.

Kadison, Pfaelzer's lawyer, **Scott Schreiber**, a partner at **Arnold & Porter**, says law firms are well advised to draft language in anticipation of such events as dissolution. Among other things, Schreiber says, firms

as tenants should try to retain the option of subleasing and require landlords to litigate issues arising out of the lease in the jurisdiction where the firm has dissolved.

"It's like prenuptial agreements," says Schreiber, who was brought in to represent Kadison, Pfaelzer by the firm's receiver, **David Ray** of Los Angeles' **Saltzburg, Ray & Bergman**. "People are getting married, they think it's going to last forever, but they still sign them anyway."

TO: Faculty Senate Members And Representatives of the Administration

November 5, 1987

FROM: Anthony Yezer

Perspectives On The G.W.U. Budget And Financial Plan

This memorandum is intended to aid discussion of the current and future condition of the university budget. In order to understand recent developments, which have prompted great concern, it is useful to trace the historical pattern of budgets. The tables below are designed to give a brief account of major budget trends in a fashion which isolates expenditures for and revenues from instruction, research, and auxiliary enterprises. The presentation here is reconciled with the organization of accounts in the annual budget in Table IV at the bottom of this page. "Actual" indicates final totals for a fiscal year taken from the GWU Annual Report. "Approved" and "Estimated" figures are dated and were presented to the Faculty Senate as budget projections except for budget summaries dated 5/6/87 which are taken from page 43 of the publication "Planning Environments for the Period 1988-93". "e" indicates an estimated number. In particular, capital expenditures included under current expenditure in budget summaries were estimated. "u" indicates an upper bound estimate of current expenditure which includes an unknown amount of expenditure on capital account. NA is not available or not applicable. Figures in Millions Of Current \$

Fiscal Year	TABLE I INSTRUCTION, RESEARCH, AUXILIARY ENTERPRISES ONLY				10/10/85		10/17/86		10/17/86		5/6/87	5/6/87
	Actual 1984	Actual 1985	Approved 1986	Actual 1986	Estimate 1987	Actual 1987	Proposed 1988	Approved 1988	Projected 1989	Projecte 1990		
CURRENT REVENUES: INSTRUCTION, RESEARCH, AUXILIARY ENTERPRISES												
1. Net Student Fees (Excluding Student Aid)	72.9	85.3	89.6	95.9	100.9	105.6	107.7	109.6	117.4	124.5		
2. Grants & Contracts	14.2	14.9	16.0	15.2	15.2	16.6	15.2	15.2	15.2	15.2		
3. Auxiliary Enterprises(Housing Books,etc)	19.9	21.6	22.9	24.7	26.5	27.4	27.5	27.5	29.2	30.9		
4. Other Income	5.0	3.8	3.7	3.8	3.5	3.5	3.5	3.4	3.3	3.5		
5. TOTAL REVENUES	112.0	125.6	132.5	139.4	146.1	153.1	153.9	155.7	165.1	174.1		
CURRENT EXPENDITURES:INSTRUCTION,RESEARCH,AUXILIARY ENTERPRISES(INCLUDING INTEREST PAYMENTS) EXCLUDES CHARGES FOR DEPRECIATION												
6. Administration, General, Interest	10.7	14.7	13.6u	16.3	17.6u	16.4	18.5u	18.5u	19.6u	20.8u		
7. Instruction & Dept. Programs	52.4	57.1	59.3u	63.6	66.0u	70.7	70.1u	72.5u	76.3u	80.3u		
8. Sponsored Programs	10.4	10.4	12.5	11.2	11.5	12.6	11.5	11.5	11.5	11.5		
9. Plant Maint. & Operation	10.9	13.2	12.9u	14.7	13.8u	15.8	14.4u	14.3u	15.2u	16.1u		
Auxiliary Enterprises(Housing,Books,etc)	18.2	20.0	22.7u	22.7	26.2u	25.7	27.3u	27.3u	28.9u	30.7u		
Other Current Expenditure	7.9	7.7	10.6e	8.1	6.0e	9.4	5.8e	6.2e	7.0e	8.8e		
12.TOTAL CURRENT EXPENDITURES	110.5	123.1	131.6e	138.6	141.1e	150.6	147.6e	150.3e	158.5e	167.2e		
13.CURRENT REVENUE LESS EXPENDITURE(LINE 5-12)	1.5	2.5	0.9e	0.8	5.0e	2.5	6.3e	5.4e	6.6e	6.9e		

---TABLE II---CAPITAL EXPENDITURE FOR LOAN REPAYMENT (ON ACADEMIC BUILDINGS) AND ACADEMIC EQUIPMENT-----

14.Loa Principal Reductions	1.1	1.1	1.4e	1.7	6.4e	6.4	6.4e	6.4e	7.7e	8.0e
15.Plant & Equipment Added	7.1	7.1	4.7e	5.8	6.3e	6.6	7.7e	7.7e	7.7e	7.7e
16.TOTAL CAPITAL EXPENDITURE	8.2	8.2	6.1e	7.5	12.9e	13.0	14.1e	14.1e	15.4e	15.7e

-----TABLE III---ENDOWMENT INCOME FROM BOTH FINANCIAL ASSETS AND NET PROPERTY INCOME, AND GIFTS AND BEQUESTS-----

ENDOWMENT INCOME & GIFTS & BEQUESTS

17.Total Gifts & Bequests	7.1	7.0	NA	6.5	NA	7.2	NA	NA	NA	NA
18.Gifts & Bequests Directly to Endowment	2.5	2.8	NA	1.7	NA	3.4	NA	NA	NA	NA
19.Gifts & Bequests Transferred To Endowment	1.5	2.0	0.6	2.0	NA	0.9	1.2	1.4	1.6	2.0
20.Gifts & Bequests In "Current Account"	3.1	2.2	0.8	2.8	3.0	2.9	1.8	1.8	1.8	1.6
21.Total Interest & Dividends From Endowment	1.8	NA	NA	2.5	NA	3.2	NA	NA	NA	NA
22.Interest & Dividends Kept in Endowment	0.3	NA	NA	0.3	NA	0.3	NA	NA	NA	NA
23.Interest & Dividends in "Current Account"	1.5	2.0	3.2	2.2	2.8	2.9	3.2	2.8	2.9	3.1
24.Total Endowment Property Income (Net)	3.7	NA	NA	3.0	NA	4.0	NA	NA	NA	NA
25.Property Income Kept in Endowment	0.8	NA	NA	0.8	NA	0.9	NA	NA	NA	NA
26.Property Income In "Current Account"	2.9	2.4	5.7	2.2	3.0	3.1	3.7	4.2	4.6	7.7
27.Total Endowment & Gifts in "Current Acct"	7.5	6.6	9.7	7.2	8.8	8.9	8.7	8.8	9.3	12.4
28.Total Endowment & Gifts Added to Endowment	5.1	NA	NA	4.8	NA	5.5	NA	NA	NA	NA

-----TABLE IV---RECONCILIATION OF TABLES I-III WITH G.W.U. ANNUAL REPORT CURRENT FUND BALANCE

Change in Current Fund Balance(13+27-16)	0.8	0.9	5.5	0.5	0.9	-1.6	0.9	0.1	0.6	3.6
--	-----	-----	-----	-----	-----	------	-----	-----	-----	-----

Important Notes On The Budget Tables:

1. The tables are based on my attempt to give greater economic meaning to the budgets of the university which are currently computed in accordance with the special fund accounting principles applied to universities. Clearly my understanding may be incorrect or my interpretation faulty due to lack of information and/or unfamiliarity with university economics. In offering an alternative presentation of the numbers, I do not intend to suggest that there are any problems or deficiencies in the manner in which data are presented in the Annual Report.
2. The current revenue less expenditure calculation in TABLE I does not include as an expenditure item a charge for depreciation of capital or for the normal return on the university's equity investment in its academic plant. It also excludes as revenue unrealized capital gains on the market value of academic plant. It would be difficult to compute the true economic values of these magnitudes and they are traditionally excluded from analysis of academic budgets.
3. The capital expenditures in TABLE II are for academic plant and equipment or for retirement of debt used to finance academic buildings. None of the revenues in current account is used to finance capital or operating expenditures for the commercial real property which forms part of the endowment. Flows of funds go only from the real property enterprise into current account (as shown mainly in line 26). Note some endowment funds are invested in quasi-mortgages on real property and this contributes to the endowment earnings reported in line 23.

Comments on the "perspectives on the G.W.U. budget" contained in Table I-IV above.

1. To the extent that other private universities are able to operate with a current revenues below current expenditures (i.e. with a negative number on line 13) while G.W. operates with the excess of current revenues over expenditures shown in line 13, it is difficult for G.W. to compete with them in terms of quality of academic programs or research output. The surplus of revenue over expenditure has been budgeted for steady increase rather than decrease as the goals of the Year 2000 Plan suggest. Examination of expenditure/revenue ratios computed from TABLE I would show, for example, that instruction and department programs (line 7)/net student fees (line 1) fell from 0.72 in fiscal 84 to 0.67 in fiscal 87 and 0.65 in projected fiscal 89.
2. The "Change in Current Fund Balance" on line 29, which is given prominent attention in the G.W. Annual Report, appears to vary inversely with revenues less expenditures in line 13. The primary reason for this inverse relation is inclusion of highly variable loan repayment which is carried as a capital expenditure item in line 14. The 4.7 million \$ increase in loan principal repayment, which impacted the Fiscal 1987 result in such a negative manner, is due to the repayment of \$5 million in zero coupon bonds used to finance the Academic Center. These repayments of principal are scheduled through fiscal 1991. A long term asset, the Academic Center building, is financed with short term notes. G.W. has not used this unusual financing scheme before or since. I understand that special provisions of tax law precluded longer term financing with tax-preferred bonds. The financial plan is the unhappy result of tax regulations. Thus it appears that the deficit in the current fund balance which is prompting expenditure cuts today is due to the rapid pace of debt repayment which was only incorporated into the financial plan to accomodate tax law provisions which no longer apply. The current deficit appears to have been born of a convoluted tax law and has been nurtured by the weak real property market. It is not clear that the appropriate remedy to the deficit "problem" should involve large increases in the surplus of current revenue over expenditure on line 13 in TABLE I.
3. There is a very large variation, particularly in percentage terms, in gifts and bequests which are attributed to "current account" (line 20) and in net endowment property income (line 24 and 26). For example, the failure of net endowment property income to grow as projected in the 1986 budget which was approved was due to smaller than expected revenues from 2000 Pennsylvania Avenue. Subsequent difficulties with the Henry Building have resulted in significantly lower net endowment property income. Indeed the current call for cuts in operating budgets is due, in part, to the failure of line 26 to equal the expectation of 3.7 or 4.2 for fiscal 1988.
4. Points 2 and 3 are related in that the increase in loan repayment from fiscal 85 to 86 was justified, in part, by the projection of rising net endowment property income which was to begin in fiscal 85 and continue through subsequent years.
5. There is a substantial increase in property income in current account (line 26) in the projections for fiscal 1990. Although earlier projections have been too optimistic, this suggests the prospect of significant future surpluses.

THE GEORGE WASHINGTON UNIVERSITY
Washington, DC

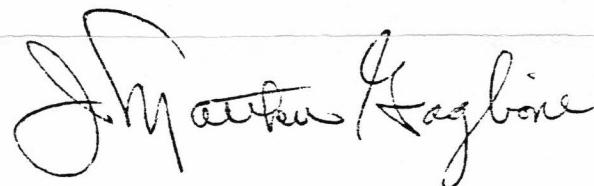
The Faculty Senate

October 26, 1987

There will be a Special Meeting of the Faculty Senate on Friday, November 6, 1987, in Lisner Hall 603 at 2:10 p.m., called by the President at the request of the Executive Committee for the sole purpose of discussion of the current 1987-88 Budget.

AGENDA

1. Call to order
2. Discussion of the 1987-88 Budget by officers of the Administration
3. Adjournment



J. Matthew Gaglione
Secretary